

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Evart Public Library	County Osceola
Audit Date 6/30/05	Opinion Date 8/23/05	Date Accountant Report Submitted to State 9/2/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name)

Baird, Cotter & Bishop, P.C.

Street Address

134 W. Harris Street

City

Cadillac

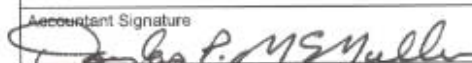
State

MI

ZIP

49601

Accountant Signature

 **Sandra P. McNeill, C.P.A.**

Date

9/2/2005

EVART PUBLIC LIBRARY

EVART, MICHIGAN

YEAR ENDED JUNE 30, 2005

EVART PUBLIC LIBRARY
EVART, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2005

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 23, 2005

INDEPENDENT AUDITORS' REPORT

To The Members of the Board
Evart Public Library
Evart, Michigan

We have audited the accompanying basic financial statements of Evart Public Library, Evart, Michigan, as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Evart Public Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Evart Public Library as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages iii through vii and 16, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as “Other Information” in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole except as noted in the preceding following paragraph.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

Evart Public Library, a Public Library located in Osceola County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Evart Public Library's administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

A. Fund Financial Statements

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Groups (General Fixed Assets and General Long-Term Debt) are no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

B. Government-wide Financial Statements

The government-wide financial statements, required by GASB 34, are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as long-term debt of the Library.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30:

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	\$ 71,929	\$ 98,105
Non Current Assets		
Capital Assets	\$ 879,063	\$ 851,193
Less Accumulated Depreciation	<u>(178,962)</u>	<u>(128,514)</u>
Total Non Current Assets	\$ 700,101	\$ 722,679
Total Assets	\$ 772,030	\$ 820,784
Liabilities		
Current Liabilities	\$ 61,095	\$ 7,586
Non Current Liabilities	<u>0</u>	<u>88,739</u>
Total Liabilities	\$ 61,095	\$ 96,325
Net Assets		
Invested in Capital Assets Net of Related Debt	\$ 641,362	\$ 627,268
Unrestricted	<u>69,573</u>	<u>97,191</u>
Total Net Assets	\$ 710,935	\$ 724,459

D. Analysis of Financial Position

During the fiscal year ended June 30, 2005, the Library's net assets decreased by \$13,524. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2005, \$50,448 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2005, \$27,870 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$22,578 for the fiscal year ended June 30, 2005.

E. Results of Operations

For the fiscal year ended June 30, 2005, the results of operations were:

	2005			2004		
	Amount	% of Total		Amount	% of Total	
General Revenues						
Property Taxes	\$ 55,621	38.83 %		\$ 53,691	36.17 %	
Investment Earnings	296	.21		339	.23	
State Sources	76,475	53.39		65,718	44.28	
Other	9,754	6.81		27,766	18.71	
Total General Revenues	\$ 142,146	99.24 %		\$ 147,514	99.39 %	
Program Revenues						
Operating Grants	\$ 1,082	.76 %		\$ 911	.61 %	
Total Revenues	\$ 143,228	100.00 %		\$ 148,425	100.00 %	
Expenses						
Recreation and Culture	\$ 151,866	96.88 %		\$ 142,368	97.04 %	
Interest on Long-term Debt	4,886	3.12		4,345	2.96	
	156,752	100.00 %		146,713	100.00 %	
Change in Net Assets	\$ (13,524)			\$ 1,712		

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

F. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Library receives property taxes for operations.

For the year ended June 30, 2005, the Library recognized \$55,621 of property tax revenue, an increase of 3.6% from 2004 fiscal year.

2. State Sources

The majority of the state sources are comprised of penal fines received from Clare and Osceola Counties. The Library collected \$69,800 in penal fines for the year ended June 30, 2005 and received state aid of \$6,675.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on June 30.

For the year ended June 30, 2005, the Library amended the general fund budget in June 2005. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 160,380	\$ 160,380	\$ 143,228	\$ (17,152)
Total Expenditures	160,380	179,730	170,846	8,884

EVART PUBLIC LIBRARY
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2005

H. Capital Asset

1. Capital Assets

At June 30, 2005, the Library had \$879,063 in capital assets, including land, buildings, leasehold improvements and equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$50,448 bringing the accumulated depreciation to \$178,962 as of June 30, 2005.

I. Long-Term Debt

As of June 30, 2005, the Library owes \$58,739 on the line of credit. The Library did not borrow any additional money during this fiscal year. Total debt decreased from \$95,411 at June 30, 2004 to \$58,739 at June 30, 2005, a reduction of \$36,672. The balance is currently due April 24, 2006 and is classified as current in the statement of net assets. The line of credit has a variable interest rate and is now up to 7.5%. The Library is expecting to refinance. More information on the Library's long-term debt is available in the Notes to Financial Statements section of this document, on page 14.

J. Factors Bearing on the Library's Future

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

K. Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Evart Public Library, 104 N. Main Street, Evart, MI 49601.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2005

ASSETS

CURRENT ASSETS

Cash	\$ 23,056
Taxes Receivable	427
Due From Other Governmental Units	<u>48,446</u>
Total Current Assets	<u>\$ 71,929</u>

NON CURRENT ASSETS

Capital Assets	\$ 879,063
Less Accumulated Depreciation	<u>(178,962)</u>
Total Non Current Assets	<u>\$ 700,101</u>
TOTAL ASSETS	<u><u>\$ 772,030</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 689
Due To Other Governmental Units	1,667
Current Portion of Long Term Debt	<u>58,739</u>
Total Current Liabilities	<u>\$ 61,095</u>

NON CURRENT LIABILITIES

Line of Credit Payable	\$ 58,739
Less: Current Portion	<u>(58,739)</u>
Total Non Current Liabilities	<u>\$ 0</u>
Total Liabilities	<u>\$ 61,095</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	\$ 641,362
Unrestricted	<u>69,573</u>
Total Net Assets	<u>\$ 710,935</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 772,030</u></u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM	GOVERNMENTAL
		REVENUES	ACTIVITIES
		CHARGES FOR	NET (EXPENSE)
		SERVICES	REVENUE AND
			CHANGES IN
			NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>			
Recreation and Culture	\$ 151,866	1,082	\$ (150,784)
Interest on Long-term Debt	4,886	0	(4,886)
Total Governmental Activities	<u>\$ 156,752</u>	<u>\$ 1,082</u>	<u>\$ (155,670)</u>
<u>GENERAL REVENUES</u>			
Property Taxes -General Purposes			\$ 55,621
Investment Earnings			296
State Sources			76,475
Contributions and Donations			9,094
Other			<u>660</u>
Total General Revenues			<u>\$ 142,146</u>
Change in Net Assets			\$ (13,524)
<u>NET ASSETS</u> - Beginning of Year			<u>724,459</u>
<u>NET ASSETS</u> - End of Year			<u>\$ 710,935</u>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND
BALANCE SHEET

JUNE 30, 2005

ASSETS

Cash	\$ 23,056
Receivables	
Taxes	427
Due From Other Governmental Units	
Clare County	2,948
Osceola County	34,664
Osceola Township	6,750
Sylvan Township	750
State of Michigan	<u>3,334</u>
 TOTAL ASSETS	 <u><u>\$ 71,929</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 689
Due To Other Governmental Units	<u>1,667</u>
Total Liabilities	<u><u>2,356</u></u>

FUND BALANCE

Unreserved	
Undesignated	<u>69,573</u>

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 71,929</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

JUNE 30, 2005

Total General Fund Balance	\$	69,573
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not
reported in the funds

The cost of the capital assets is	879,063	
Accumulated depreciation is	<u>(178,962)</u>	700,101

Other long-term assets are not available to pay for current period
expenditures and therefore are not reported in the funds

Long term liabilities are not due and payable in the current period and are not
in the funds

Line of Credit Payable		<u>(58,739)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>710,935</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>		
Local		
City of Evart		
Current Property Tax	\$ 42,000	\$ 35,970
Industrial Facilities Tax	0	1,264
Evart Township		
Current Property Tax	9,500	11,637
Osceola Township		
Current Property Tax	6,000	6,750
State Grants		
Library State Aid	7,500	6,675
Library Penal Fines		
Clare County	4,000	2,948
Osceola County	80,000	66,852
Contribution from Local Units		
Hartwick Township	300	300
Orient Township	300	400
Sylvan Township	300	750
Interest and Rents		
Interest and Dividends	330	296
Other Revenues		
Contributions and Donations from Private Sources	8,000	7,644
Charges for Services	1,500	1,082
Sale of Books	650	553
Miscellaneous	0	107
Total Revenues	<u>\$ 160,380</u>	<u>\$ 143,228</u>
<u>EXPENDITURES</u>		
Recreation and Culture		
Personal Services		
Librarian	\$ 31,200	\$ 28,480
Technician and Aides	21,716	20,863
Custodial	6,350	6,334
Treasurer	2,130	2,130
Museum Coordinator	4,280	4,280
Trustees	2,000	1,980
Fringe Benefits		
Social Security and Medicare	4,910	4,902

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>
Supplies		
Office Supplies	1,035	1,030
Operating Supplies	2,790	2,788
Magazines and Newspapers	1,500	1,406
Museum Supplies	1,725	147
Purchased Services		
Auditing and Bookkeeping	3,130	3,130
Insurance		
Liability	2,512	2,512
Bond	125	61
Worker's Compensation	880	879
Telephone	2,032	2,082
Travel and Education	100	75
Utilities		
Heat	6,500	3,997
Electricity	7,000	5,185
Sewer and Water	225	184
Repair and Maintenance	2,975	2,974
Capital Outlay		
Books	21,000	20,505
Equipment	6,900	8,451
Miscellaneous Expense		
State Aid - Membership	3,500	3,338
Dues and Memberships	300	220
Miscellaneous	1,315	1,355
Debt Service		
Loan Interest Payments	4,928	4,886
Principal Payment	36,672	36,672
	<hr/>	<hr/>
Total Expenditures	\$ 179,730	\$ 170,846
	<hr/>	<hr/>
Excess (Deficiency) of Revenues		
Over Expenditures	\$ (19,350)	\$ (27,618)
	<hr/>	<hr/>
<u>FUND BALANCE</u> - Beginning of Year	97,191	97,191
	<hr/>	<hr/>
<u>FUND BALANCE</u> - End of Year	\$ 77,841	\$ 69,573
	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

Net change in Fund Balance General Fund	\$ (27,618)
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(50,448)	
Capital Outlay	<u>27,870</u>	(22,578)

Long-term debt principal payments are not expensed on the Statement of Activities, instead charged to the Line of Credit liability account.	<u>36,672</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (13,524)</u></u>
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The notes to the financial statements are an integral part of this statement.

EVART PUBLIC LIBRARY
EVART, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Evart Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Library's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Library has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The Evart Public Library is a district library established under the provision of Act No. 164, Public Acts of 1955. The accounting policies of the Evart Public Library conform to generally accepted accounting principles (GAAP) as applicable to governments. The following is a summary of the more significant policies:

The financial statements of the Evart Public Library include the accounts of all operations. The Library's major operation is to operate a public library in Evart, Michigan. The Library board consists of six members, two of whom are appointed by each of the City of Evart, Evart Township and Osceola Township. As such, the City of Evart, Evart Township and Osceola Township are all 1/3 owners of the Library.

In addition, there are no component units to be included in the Library's reporting entity as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Library only has a governmental fund called the General Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

EVART PUBLIC LIBRARY
EVART, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major governmental fund:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from date of acquisition.

The Library's investment policy states that the Evart Public Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Certificates of Deposit
- (b) Savings Accounts
- (c) Money Market Accounts

EVART PUBLIC LIBRARY
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	10 years
Building	50 years
Furniture and Equipment	10 years
Building Improvements	20 years

The Library's capitalization policy is to capitalize individual amounts exceeding \$1,000 and all books.

3. Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are not accrued in governmental funds (using the modified accrual basis of accounting). The Library does not allow employees to accrue these benefits beyond the end of the fiscal year. Also, upon termination of employment the employee will not be paid for any benefits accrued during the fiscal year.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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NOTES TO FINANCIAL STATEMENTS
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7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The board of directors of the Library annually prepares an operating budget. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted in March 2004, or as amended by the Library board on June 30, 2005.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON GENERAL FUND AND ACCOUNT GROUP

A. Deposits and Investments

The Library's deposits are all on deposit with Citizens Bank.

At year end, the carrying amount of the Library's deposits was \$22,914 and the bank balance was \$42,440. The Library had \$142 of petty cash on hand at June 30, 2005.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005, \$0 of the Library's

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EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

balance of \$42,440 was exposed to custodial credit risk because it was uninsured and uncollateralized.

B. Due from Other Governments

Amounts due from other governments of \$48,446 are comprised of penal fines, property taxes and state aid.

C. Capital Assets

A summary of changes in the Library's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets:				
Land	\$ 15,000	\$ 0	\$ 0	\$ 15,000
Books	196,283	20,721	0	217,004
Building	90,000	0	0	90,000
Furniture and Equipment	21,840	7,149	0	28,989
Building Improvements	528,070	0	0	528,070
Subtotal	\$ 851,193	\$ 27,870	\$ 0	\$ 879,063
Accumulated depreciation	(128,514)	(50,448)	0	(178,962)
Net capital assets	\$ 722,679	\$ (22,578)	\$ 0	\$ 700,101

Depreciation for the fiscal year ended June 30, 2005 amounted to \$50,448.

D. Property Taxes

The Library receives revenue from a millage on the July tax roll. The taxes are levied as of July 1 and are due upon receipt of the billing by the taxpayer. The actual due date is August 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the Library levied the following amount per \$1,000 of taxable valuation on city residents.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	\$.9702/\$1,000

E. Long-Term Debt

The Library has secured a line of credit for \$100,000 to be used to complete the construction project which is remodeling the Library building. The remodeling is now complete. The balance

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

outstanding at June 30, 2005 was \$58,739, which carried an interest rate that varied from 5.2% to 7.5% based on prime rate plus 1%. The line is expected to be renegotiated to allow a longer payment period, as current resources are insufficient to liquidate the debt at its current maturity date of April 24, 2006.

A summary of the Long-Term Debt transactions for the Library for the year ended June 30, 2005, is as follows:

	<u>LINE OF CREDIT</u>
Long-Term Debt at July 1, 2004	\$ 95,411
New Liabilities	0
Liabilities Retired	(36,672)
Liabilities Classified as Current	<u>(58,739)</u>
Long-Term Debt at June 30, 2005	\$ <u>0</u>

The annual requirements to amortize all long-term debt outstanding as of June 30, 2005, including interest payments of \$3,515 are as follows:

<u>YEAR ENDING JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>LINE OF CREDIT</u>
2006	\$ 58,739	\$ 3,515	\$ 62,254

F. Retirement Benefits

Retirement benefits are provided to the librarian through contributions to individual retirement accounts after completing one year of service for the Library. Such contributions equal \$100 per month for the librarian. Individual retirement account balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which would be includible as part of the Library reporting entity. For the year ended June 30, 2005, \$1,200 was contributed to the individual retirement account of the librarian.

D. Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters. The Library participates in a pool of municipalities within the State of Michigan for workers' compensation insurance. The Library pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Library has not been informed of any special assessments being required for the current year or previous three prior years.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

E. Collections of Works of Art and Historical Treasures

The Library, over the years, has received contributions from patrons for such items as mastodon bones collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

EVART PUBLIC LIBRARY

EVART, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2005

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE
<u>REVENUES</u>				
Local Sources	\$ 68,880	\$ 68,880	\$ 66,753	\$ (2,127)
State Sources	91,500	91,500	76,475	(15,025)
Total Revenues	\$ 160,380	\$ 160,380	\$ 143,228	\$ (17,152)
<u>EXPENDITURES</u>				
Recreation and Culture				
Personal Services	\$ 65,510	\$ 67,676	\$ 64,067	\$ 3,609
Fringe Benefits	4,500	4,910	4,902	8
Purchased Services	23,300	25,479	21,079	4,400
Supplies	4,400	7,050	5,371	1,679
Capital Outlay	22,000	27,900	28,956	(1,056)
Miscellaneous	4,300	5,115	4,913	202
Debt Service				
Principal and Interest	11,500	41,600	41,558	42
Contingency	24,870	0	0	0
Total Expenditures	\$ 160,380	\$ 179,730	\$ 170,846	\$ 8,884
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 0	\$ (19,350)	\$ (27,618)	\$ (8,268)
<u>FUND BALANCE</u> - Beginning of Year	97,191	97,191	97,191	0
<u>FUND BALANCE</u> - End of Year	\$ 97,191	\$ 77,841	\$ 69,573	\$ (8,268)

EVART PUBLIC LIBRARY
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STATEMENT OF 2004 TAX ROLL
JUNE 30, 2005

	TAXABLE VALUE	MILLS LEVIED	TAXES ASSESSED	COLLECTIONS	TAXES RETURNED DELINQUENT
City of Evart					
Current Property	\$ 47,504,438	0.9702	\$ 46,084		
Less: D.D.A. Captured	(3,098,777)	0.9702	(3,431)		
L.D.F.A. Captured	(7,213,175)	0.9702	(6,683)		
	<u>\$ 37,192,486</u>	<u>0.9702</u>	<u>\$ 35,970</u>	\$ 35,837	\$ 133
Industrial Facilities	\$ 7,049,106	0.4851	3,419		
Less: L.D.F.A. Captured	<u>(4,443,187)</u>	<u>0.4851</u>	<u>(2,155)</u>		
	\$ 2,605,919	0.4851	<u>1,264</u>	<u>1,264</u>	<u>0</u>
			\$ 37,234	\$ 37,101	\$ 133
Evart Township	\$ 38,788,482	0.30	11,637	11,637	0
Osceola Township	\$ 22,500,475	0.30	<u>6,750</u>	<u>6,750</u>	<u>0</u>
			<u>\$ 55,621</u>	<u>\$ 55,488</u>	<u>\$ 133</u>
Total Amount Captured by the D.D.A. and L.D.F.A. Combined			<u>\$ 12,269</u>		

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

August 23, 2005

LETTER OF REPORTABLE CONDITIONS

Evart Public Library
Evart, Michigan

In planning and performing our audit of the basic financial statements of the Evart Public Library for the year ended June 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

1. The relatively small number of people involved in the accounting functions of the Library makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.